

Periodicals

Bush's drive to democratize Iraq and the Middle East the same flawed premises that inspired Wilson's failed crusade: that the spread of democracy, even by force, is an unqualified good; that people everywhere, regardless of their history or circumstances, are ready for democracy; and that America has a special mission to bring it to them and even impose it on them.

Like many other critics, Encarnación dismisses the relevance of apparent U.S. successes in democratizing Japan and Germany after World War II, since both coun-

tries had advantages, including past experience with democracy, not shared by Iraq and other target nations.

The Bush administration should learn from earlier U.S. successes in Latin America and elsewhere by "facilitating the conditions that enable nations to embrace democracy of their own free will: promoting human rights, alleviating poverty, and building effective governing institutions," says Encarnación. As President Herbert Hoover once declared, "True democracy is not and cannot be imperialistic."

ECONOMICS, LABOR & BUSINESS

A Failing Grade for Business Schools

"How Business Schools Lost Their Way" by Warren G. Bennis and James O'Toole, in *Harvard Business Review* (May 2005), 60 Harvard Way, Boston, Mass. 02163.

No medical school would employ a professor of surgery who'd never seen a patient, yet today's business schools are packed with professors who have little or no managerial experience. That suits the schools fine, but their students and society are being short-changed, argue Bennis, a professor of business administration at the University of Southern California's Marshall School of Business, and O'Toole, a research professor at USC's Center for Effective Organizations. Narrowly focused on academic research that purports to be scientific, B-school professors are failing to teach their students to grapple with the complex, unquantifiable issues that business executives face in making decisions. The result, say employers, students, and even some deans of prestigious business schools, is that the future leaders these schools turn out year after year are ill prepared for the real world of business.

Instead of looking on business as a profession, most of the nation's two dozen leading business schools have come to regard it as an academic discipline, like physics or chemistry. That's quite a change from the first half of the 20th century, when B schools were more akin to trade schools. "Then, in 1959 . . . the Ford and Carnegie foundations issued devastating reports on the woeful state of business school research and theory," and put money behind their suggested reforms.

Today, B-school "scientists" employ abstract financial and economic analysis, statistical multiple regressions, and laboratory psychology to get at myriad little facts that they hope will one day add up to a general science of organizational behavior. "Some of the research produced is excellent," but very little of it is relevant to practitioners. The research-oriented professors may be brilliant fact-collectors, but if the business of business schools is to develop leaders, "then the faculty must have expertise in more than just fact collection." As a profession, not a scientific discipline, business must draw upon the work of many academic disciplines, including mathematics, economics, psychology, philosophy, and sociology.

"The best classroom experiences," say Bennis and O'Toole, "are those in which professors with broad perspectives and diverse skills analyze cases that have seemingly straightforward technical challenges and then gradually peel away the layers to reveal hidden strategic, economic, competitive, human, and political complexities—all of which must be plumbed to reach truly effective business decisions." Unfortunately, as narrowly trained specialists fill the B-school faculties—and replicate themselves through hiring and tenure decisions—the trend is away from the "case studies" method.

The authors don't want to remake business schools into the glorified trade schools

they once were, but they do want to restore balance. “By whatever means they choose—running businesses, offering internships, en-

couraging action research, consulting, and so forth—business school faculties simply must rediscover the practice of business.”

Overestimating the Trade Deficit

“A Silver Lining in the U.S. Trade Deficit” by Diana Farrell, Sacha Ghai, and Tim Shavers, in *The McKinsey Quarterly* (March 2005), www.mckinseyquarterly.com.

If Washington wants to cut America’s huge and scary trade deficit down to size, using 21st-century measurement techniques would be a good way to start. Farrell, director of the McKinsey Global Institute, and her colleagues at the research arm of the business consulting firm McKinsey and Company, believe that about a third of last year’s \$666 billion U.S. trade deficit was essentially a statistical mirage created by the federal government’s outdated method of calculating the trade balance.

That method is based on the assumption that a dollar sent abroad is a dollar that goes into a foreign pocket. Thanks to the rapid expansion of U.S. multinationals, however, that dollar is much more likely than before to find its way into the coffers of a foreign subsidiary of a U.S. company.

That’s not the end of the story. If that foreign subsidiary sells its products abroad, only its profits (or losses) are recorded in U.S. trade data. But if it ships those products to the United States, the entire sales amount shows up in the trade statistics as red ink.

For example, the Mexican subsidiaries of Chrysler, Ford, and General Motors sold nearly 500,000 cars and trucks in Mexico in 2003, earning a profit of \$360 million. That amount showed up on the plus side of the U.S. trade ledger. But the subsidiaries also shipped 700,000 vehicles to the United States, where they were sold for \$12 billion. After U.S.-made components worth \$5 billion that were used in the vehicles were accounted for, the sales

added \$7 billion to the U.S. trade deficit.

Two trends since the early 1990s have exacerbated this strange effect. First, U.S. multinationals have vastly increased their investments abroad. Second, and more important, a growing share of that money is being sunk into investments designed not to expand markets abroad but to improve corporate efficiency. Classic examples include customer-service call centers in India and assembly plants for computer motherboards in China. These sorts of ventures, especially the service-oriented ones, have a more pronounced effect on the U.S. trade deficit because they incorporate few products exported from the United States.

Farrell and her colleagues argue that U.S. multinationals’ growing foreign investments produce many benefits that are not widely appreciated—including lower prices for consumers, higher stock market valuations (to the tune of \$3 trillion) for the multinationals, and more jobs at home. In 2002, the foreign subsidiaries of U.S. corporations generated about \$2.7 trillion in revenues—about three times the value of all U.S. exports. Yet because of the way Washington keeps its books, the lion’s share of those revenues registered as an economic weakness rather than a strength.

The federal government, say the authors, should adopt “an ownership-based view of trade,” categorizing companies by where they are owned, not by where their goods are produced. That would give a more realistic picture of the health of the U.S. economy.

Jobs and Jails

“What Explains the Continuing Decline in Labor Force Activity among Young Black Men?” by Harry J. Holzer, Paul Offner, and Elaine Sorensen, in *Labor History* (Feb. 2005), Taylor & Francis, Inc., 325 Chestnut St., Ste. 800, Philadelphia, Pa. 19106.

The 1990s were boom years for workers of virtually all kinds, yet the number of young black men who were out of the

labor force—not even looking for work—grew faster than it did during the 1980s. By the end of the 1990s, about 32 percent of